

SEPARATION
OF SOURCES OF REVENUE
FOR STATE AND LOCAL PURPOSES.

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Department of Political Economy

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II.

in functions of different divisions of government. H. C. Adams' plan.

4. Practical reasons for such separation

- (a) Administrative advantages
- (b) Advantages for classification
- (c) Remove chief cause for undervaluation by assessors.

5. Pennsylvania the pioneer in "Separation".

6. Experience of N.Y. with "Separation".

7. Experience of Conn. with "Separation".

8. Other states using more or less complete "Separation":- West Virginia, New Jersey, Delaware, and California.

B. History of the development of the idea of "Separation" in California.

1. Reasons assigned for the defeat of the California amendment as first proposed and their subsequent correction

- (a) Lack of provision for elasticity.
- (b) Fear of freeing public service corporations from just portion of previous bonded indebtedness of localities.
- (c) Withdrawn sources would not be subject

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to deficiency tax if such should become necessary.

(d) No provision for changing specified rates.

2. Re-submission of amendment and adoption in 1910. Provision made for re-imbursing localities that would be heavy losers by adoption of the plan.
3. Taxation of corporations given over to State. Gross earnings method used.
4. Specified rates subject to change by three-fourths vote of the Legislature.
5. All property except as otherwise provided in the Constitution to be locally assessed and taxed in manner prescribed by law.
6. Litigations - Tax must be paid first.
7. Smooth administration. Verification of reports.
8. Comments by Mr. Nye and Mr. Mitchell. Revision of rates.

C. Tables showing sources of state revenues where "separation" has been put in force.

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IV. Objections to the plan of "separation".

1. Lack of suitable state and local sources respectively.
2. Lack of elasticity.
3. Danger of extravagance.

V. Apportionment of state taxes on basis of local revenues.

A. Advantages:-

1. Does away with necessity for equalizing valuations between counties.
2. Places direct responsibility for state expenditures.
3. Affords more equitable distribution of state taxes than present method.
4. Necessitates the keeping of systematic accounts by local governments.

B. Disadvantages:-

1. Possibility of penalizing progressive communities.
2. Used alone it does not solve adequately the difficulty of taxing corporations, etc.

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VI. Plan recommended is a combination of "Division of Sources" and Apportionment by expenditure methods.

- A. Use such "Separation" as may be necessary to facilitate equitable administration and bring about a necessary amount of classification.
- B. Distribute all taxes collected by the state under "A" back among the local governments on the basis of money raised and expended locally.
- C. Raise all money for state purposes by direct levy on local governments on the basis of money raised and expended locally.
- D. Advantages of such a system.
 - 1. Does away with necessity of equalization of assessed values between counties.
 - 2. Makes possible necessary classification and efficient administration.
 - 3. Affords more equitable distribution of the tax burden than the present plan.
 - 4. Places direct responsibility for state expenditures, thus assuring careful consideration of such matters, making necessary the constant education of the masses

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and thereby perpetuating our democratic form of government.

5. Necessitates the keeping of systematic records by local governments.
6. The combination of these two plans causes each to remedy the deficiencies of the other.

E. Suggestions for Nebraska.

VII. Recapitulation.

VIII. Bibliography.

PREVIEW

PREVIEW

SEPARATION
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1.

INTER-RELATION OF A TAX SYSTEM AND ECONOMIC CONDITIONS.

To individuals of today enjoying the fruits of social organization and realizing the necessity for governmental functions, taxes seem perfectly natural even though the levying and collecting of them may be a source of considerable complaint.

It is difficult to realize that our taxing system is of comparatively recent growth and marks a late development in matters of public revenue.

Each age has its own system of providing for public activities, determined by the economic conditions predominating. History teaches that finance and economic conditions are inseparably associated.

Futhermore, history shows that not only the form of taxation but also the theories change with varying economic conditions.

Downfall of the "General Property Tax".

Thus on account of present dissatisfaction with results obtained through the administration of the so called general property tax we observe that

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changes are being made here and there in order to adjust the tax system to economic conditions.

Since the backbone of our tax system here in the United States has been for many years the general property tax it may be well to mention briefly the causes of its downfall as they appear to the writer, for its failure to meet conditions properly is an oft repeated statement by tax commissions appointed to investigate such matters thoroughly.

According to the theory of the general property tax each person should contribute to the support of the government according to his or her ability to do so and the measure of such ability is to be found in the value of all the property owned by each person. Though the value of different kinds of property owned by a person may be listed separately, all sums are added together and one rate of taxation applied to the total or some assigned percent thereof. The valuing or assessing is usually done by local officers, the equalizing of assessments throughout the county or other intermediate jurisdictional unit is attempted by a board of equalization, and valuations throughout the different

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counties of the state are supposed to be equalized by a state board of equalization, that makes necessary certifications back to the counties.

As finally adjusted these valuations serve as a basis for the apportionment of all direct taxes levied within the state — for village or city, road district, school district, township, county, and state. One rate is piled on top of another on the same base.

Where property is homogeneous, tangible, and moderately equally distributed the general property tax may work well. Even if the property is not all of the same nature but is distributed quite equally and above all equitably assessed, satisfactory results may be gotten by use of the general property tax.

But when you have combined the facts that property is not homogeneous, that some kinds escape taxation more readily than others, that equity in assessment is not secured either between individuals of the same district or between groups of individuals in different districts, you realize some of the

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difficulties confronting the use of the general property tax. Such a tax system may have worked well in earlier times when property was more homogeneous, more equally distributed, and tax burdens were not so great; but with the development of civilization, the introduction of various kinds of property, the development of corporate organizations in which the value of the business is not at all equitably represented by the visible property used, the increase of personal property, especially in the form of intangibles, and the unequal distribution of property generally, the administration of the general property tax ceases to approximate equity among individuals and therefore it must give way to a system better suited to our surroundings.

Even if it were not for the administrative difficulties of the general property tax, the idea that all property, though of different kinds, should be taxed at a uniform rate is theoretically wrong. Different kinds of property, though of same value, measure differently one's ability to contribute to the support of the government.

The causes for the downfall of the general

property tax are thus shown to be inherent in the system when applied to our economic status and these causes may be briefly characterized as follows: *

1. Lack of uniformity or inequality in assessments. There is a growing lack of equality in tax burdens between communities, classes in a community, and individuals of the same class. Local assessors desire to save to their constituents as much as possible of state and county taxes, the equalization board in each county, even while trying to equalize assessments among minor subdivisions, endeavors to save to the county a portion of state expenses. Even if well intentioned such boards are not sufficiently well informed to equalize equitably, nor do they generally have sufficient control over local assessors.

 *Causes enumerated by E. R. A. Seligman in his "Essays in Taxation" — Revised Edition — 1913.

2. Lack of universality. The system is supposed to reach all kinds of property equally but the attempt results in utter failure. Our economic

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development has resulted in vast accumulations of personal property of intangible form. Corporations represent vast amounts of intangible property in no way adequately represented by tangible property for purposes of taxation.

The general property tax fails utterly when applied to such kinds of property. It is generally conceded that in modern society the value of personal property exceeds considerably that of real estate but careful examination of tax statistics reveals the former in far less amount than the latter, with increasing difference as society progresses as shown by the following figures.

Note assessed valuations as follows: *

	Real Estate	Personal Property.
1860 in U. S.	\$6,938 M.	\$5,111 M.
1880 " " "	13,036 M.	3,866 M.
1890 " " "	18,956 M.	6,516 M.
1872 in Cal.	417 M.	220 M.
1887 " "	791 M.	164 M.
1893 " "	1000 M.	173 M.
1843 in N. Y.	477 M.	119 M.

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	Real Estate	Personal Property.
1871 in N.Y.	1600 M.	453 M.
1911 " " "	9,639 M.	483 M.
1866 Cincinnati, O.	66 M.	67 M.
1892 " "	144 M.	45 M.

*As given by E. R. A. Seligman in his
 "Essays in Taxation" — Revised Edition — 1913.

3. Incentive to dishonesty. The ease with which various kinds of personal property may be concealed and thus the tax avoided is sufficient inducement to some to take advantage of these facts. And, though most people may be honest under ordinary circumstances, yet there are few that feel like assuming voluntarily extra tax burdens thrown upon them by other persons' avoidance of responsibilities. Thus grows up the habit, very generally, of concealing intangibles from assessors.

E. R. A. Seligman says "When an effort is made to introduce still more drastic methods by the employment of so-called 'tax-inquisitors or 'tax-ferrets', as until recently in Ohio and Iowa, and

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still in Indiana, Kentucky, and Oklahoma, the situation becomes worse. The only result of more rigid execution of the law is a more systematic widespread system of deception". The condemnations of the general property tax as applied to personalty are many and severe.

4. Regressivity. Unless a person's name is listed as an owner of real estate the assessor does not generally get hold of him for personalty. And further, the more personalty a person acquires the greater is his ability to conceal it. Thus there is the tendency for those having greater amounts of personal property to pay less tax proportionately.

The California Tax Commission found by careful investigation that farmers were paying a tax annually equivalent to ten percent of their net incomes while manufacturers were paying in taxes the equivalent of only two percent of net income.

5. Double taxation. The matter of debt exemption is indeed a bone of contention. Some contend that all debts should be off set against one's resources in making assessments while others

claim that only debts secured by real estate should be deducted, while many say that the matter should be dealt with by exempting various classes of securities from taxation.

On the other hand, many officials protest strongly against debt-exemption, claiming that it opens unjust avenues of escape for the tax dodger.

Debt exemption and non-exemption seem alike to expose the general property tax to severe criticism and thus to call for change.

Such general condemnation of the general property tax arising after so many careful investigations has resulted in various proposals for remedying this glaring injustice in tax matters.

It is the purpose of this paper to inquire very carefully into one of these plans for reforming our taxing system and thus producing a revenue system appropriate to our economic environment.

SEPARATION OF SOURCES.

The "Separation of Sources of Revenue for State and Local Purposes" contemplates turning over to the central or state government selected sources of revenue and reserving other sources for local governments -- counties and minor subdivisions.

This means that each authority would administer the revenue system as applied to its own sources under such regulations as decided upon and that thus the application of both state and local rates on the same base as now practiced with the resulting evils thereof would be avoided.

To illustrate:- The railroad companies and various public service corporations might be delegated as sources of state revenue while the general property tax, excepting certain kinds of property, might be given over to local governments.

Complete separation contemplates that the state sources shall supply all revenues for state purposes and that none of these revenues will be used for other purposes. Complete separation does not necessarily follow from adoption of the principle